

**STATE AND CONSUMER SERVICES AGENCY  
DEPARTMENT OF GENERAL SERVICES**

**AUDIT OF THE  
DEPARTMENT OF  
REHABILITATION**

**FOR COMPLIANCE WITH STATE  
BUSINESS MANAGEMENT POLICIES  
REPORT NO. 8122**

**OFFICE OF AUDIT SERVICES**

**FEBRUARY 2009**

DEPARTMENT OF REHABILITATION  
COMPLIANCE AUDIT  
REPORT NO. 8122

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**STATE OF CALIFORNIA**  
**DEPARTMENT OF GENERAL SERVICES**  
**AUDITOR'S REPORT**

DATE: May 18, 2010

TO: **ANTHONY P. SAUER**, Director  
Department of Rehabilitation

This report presents the results of our compliance audit of the business management functions and services of the Department of Rehabilitation (DOR). These audits are routinely performed under the authority granted to the Department of General Services (DGS) by Government Code Sections 14615 and 14619. The objective of our audit was to determine compliance with policies set forth in the State Administrative Manual, and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the DGS. As applicable, the scope of our audits of State agencies includes, but is not limited to, compliance with policies governing contracting, purchasing, fleet administration, small business and disabled veteran business usage, driver safety and insurance, records and forms management, surplus property, real estate and prompt payment of suppliers. Our audit was conducted in accordance with U.S. generally accepted auditing standards.

While in most areas we concluded that the DOR is conducting its business management functions and services in accordance with State requirements, we identified the following areas for improvement. The implementation of the recommendations presented in this report will assist the DOR in addressing these areas.

- Policies and procedures are not ensuring that contracts are approved prior to the commencement date shown on the contract.
- Delegated purchasing program policies and procedures are not ensuring full compliance with State requirements governing those types of procurements. The types of exceptions noted during our audit included procurement files lacking documentation related to the obtaining of two responsible bids and, when applicable, the small business and disabled veteran business enterprises certification status for losing businesses. In a number of instances, we also noted purchase orders that did not accurately reference applicable terms and conditions and the procurement method used to award the order.
- DOR's driver safety and insurance program is not ensuring that employees who use their own vehicle to conduct State business complete and annually update a vehicle certification form. Further, policies and procedures are not ensuring that frequent drivers attend a defensive driver training course every four years.
- Accurate records are not being maintained on the assignment of DGS charge cards.

During our review we also identified other matters requiring attention that we discussed with the DOR's management but are not included in this report. These matters included our concern that contracting program policies and procedures were not ensuring that, prior to contract award, the Secretary of State's office was contacted to verify that corporations were in good standing to do business with the State. Contracting policies and procedures had also not been established which ensured that informal competition activities were performed when processing transactions of less than \$5,000. Further, we observed that adequate property disposal policies

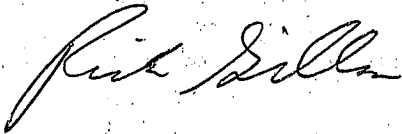
and procedures had not been established to ensure the timely disposal of surplus personal property. Prior to the completion of our audit, we verified that appropriate actions had been or were being taken to address these issues. Therefore, they are not further discussed in this report.

It should be noted that when advised of areas for improvement during our audit fieldwork the DOR's management took immediate action to begin addressing a number of our concerns. Although we were not able to verify the effectiveness of some of these actions prior to the completion of our audit fieldwork, we were pleased with the commitment shown to improve compliance with State requirements.

Your response to each of our recommendations as well as our evaluation of the response are included in this report.

We greatly appreciated the cooperation and assistance provided by the DOR's personnel.

If you need further information or assistance on this report, please contact me at (916) 376-5058, or Dennis Miras, Audit Supervisor, at (916) 376-5064.



RICK GILLAM, CPA, CIA  
Chief, Office of Audit Services

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# **DEPARTMENT OF REHABILITATION COMPLIANCE AUDIT**

## **FINDINGS AND RECOMMENDATIONS**

The following presents our detailed findings and recommendations developed based on our review of the business management functions and services of the Department of Rehabilitation (DOR) for compliance with policies set forth in the State Administrative Manual (SAM), and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the Department of General Services (DGS). This report presents information on areas of noncompliance with policies governing the: timely approval of contracts; conduct of delegated purchases; completion of vehicle certification forms by employees; attendance of a defensive driver training course by frequent drivers; and, control of DGS charge cards.

This information was developed based on our fieldwork conducted over the period January 15, 2008 through February 25, 2009. Although the finalization of our report was delayed due to other high priority assignments, as findings were observed and developed during our audit fieldwork, the DOR's management was promptly advised of any areas of concern so that they could begin taking corrective action. Further, at our February 2009 audit exit conference, the DOR was provided a detailed written summary of issues noted during our review.

To determine compliance, we reviewed policies and procedures, interviewed parties involved, tested records and transactions and performed other tests as deemed necessary. The period covered by our testing varied depending upon the area of review and the type of transactions involved; however, the emphasis of our review and testing was with current procedures and transactions completed during the 2007/08 and 2008/09 fiscal years.

### **CONTRACTS – TIMELY APPROVAL**

Although overall we determined that the DOR is conducting its contracting program in compliance with State requirements, our tests disclosed one area of concern that should be addressed. Specifically, current policies and procedures are not ensuring that contracts are approved prior to the commencement date shown on the contract. Our review of a sample of 29 contracts submitted to the DGS for approval determined that 14 were not processed in a manner that allowed final approval prior to the commencement date shown on the contract. Further, we determined that actual work started on at least 10 of the contracts prior to approval.

The significant percentage of late contracts processed by the DOR indicates a weakness in time management. While it was difficult to determine the causes of delays in processing the sampled contracts, we ultimately concluded that the late contracts primarily resulted from programs not submitting contract information to the Contracts Unit in a timely manner or contracts not being signed and returned in a timely manner by contractors. At the DOR, operating unit staff have significant responsibilities for developing and preparing contract information. If this information is not submitted to the Contracts Unit for final processing in a timely manner, the contract can not be completed prior to its requested commencement date.

It should be noted that the issue of late contract submittals was also a finding presented in our previous April 2000 report on the DOR's business management policies. Further, the DOR's internal auditors have issued a number of reports that addressed this issue. We are also aware

**DEPARTMENT OF REHABILITATION**  
**Findings and Recommendations, Cont'd**

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that the DOR has taken a number of actions to improve this process, including establishing contract processing timelines and providing contract administrator training in this area. Although we are pleased with the efforts taken to improve the timeliness of contracts, as shown by the results of our tests, these efforts have not been totally effective.

Public Contract Code Sections 10295 and 10335 provide that contracts are of no effect unless and until approved by the DGS. The State's policies related to the approval and commencement of contracted work are presented in State Contracting Manual (SCM) Volume I, Section 4.09. The basic State policy is that no contractor should start work until receiving a copy of the formally approved contract.

**Recommendation**

1. Implement policies and procedures that ensure the DGS' approval of contracts prior to the commencement date shown on the contract. As part of this process, operating unit managers should be periodically reminded of the lead-time needed for the timely processing of contracts and their responsibility for ensuring that contract information is submitted to the Contracts Unit in a timely manner.

**DELEGATED PURCHASING PROGRAM**

Overall, we concluded that the DOR has implemented a delegated purchasing program that ensures compliance with the State's primary procurement requirements, including those governing the obtaining of bids from multiple suppliers and providing procurement opportunities to certified small businesses. However, our tests of a sample of 17 delegated information technology (IT) procurements disclosed a number of areas for improvement that need to be addressed to fully comply with purchasing requirements. The State's delegated purchasing requirements for IT procurements are contained in SCM Volume III.

Since the instances of noncompliance were discussed with responsible management and staff during our audit fieldwork, they are not detailed in this report. However, the types of exceptions noted included procurement files that did not always include documentation that competition was achieved through the obtaining of two responsible bids (SCM III, Section 3.C1.1). Further, the files often lacked the business certification for the losing business when the DOR was using the Small Business/Disabled Veteran Business Enterprises Option allowed under Government Code Section 14838.5 to acquire IT goods. The losing businesses' certification should be printed from a DGS website and maintained in the procurement file to fully document the transaction (SCM III, Section 3.B7.1). In a number of instances, we also noted Purchasing Authority Purchase Orders, STD. 65s, that did not accurately reference applicable terms and conditions and the procurement method used to award the purchase order (SCM III, Section 7.3.2).

**Recommendation**

2. Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. This process should address the issues noted above.

### **DRIVER SAFETY AND INSURANCE PROGRAM**

The DOR needs to strengthen its driver safety and insurance program to assist in preventing and controlling the costs of vehicle accidents. Collectively, such accidents cost the State millions of dollars each year including liability to other parties, repairs to State vehicles, workers' compensation and lost work time of employees. For maximum containment of these costs, each State agency is expected to actively participate in the State's driver safety program. The following areas need strengthening:

- **Vehicle Authorizations** – current policies and procedures are not ensuring that an Authorization to Use Privately Owned Vehicle, STD. 261, certification form is completed and annually updated by employees who use their own vehicle to conduct State business. Specifically, at the time of our audit tests, a current STD. 261 was not available for 45 of 103 employees included in our sample tests who used their own vehicle on State business. The DOR's travel policies provide that supervisors are to monitor their employees for the proper and timely completion of STD. 261s. As shown by the results of our review, these policies have not been effective.

SAM Section 0753 requires that a privately-owned vehicle authorization form be completed and annually updated by each employee who uses his or her own vehicle to conduct State business. In addition, this section provides that an employee's travel expense claim for private vehicle mileage should not be approved by a supervisor prior to verification that a current authorization form is on-file for the employee. The completion of the authorization form accomplishes the objective of having the employee certify in writing that the vehicle used will always be:

- Covered by liability insurance for the minimum amount prescribed by law;
  - Adequate for work performed;
  - Equipped with safety belts; and,
  - In safe mechanical condition.
- **Defensive Driver Training** – our review of a sample of 140 frequent drivers found that 73 of them had not attended a defensive driver training course within the last four years. SAM Section 0751 provides that frequent drivers should attend and successfully complete an approved defensive driver training course at least once every four years. Although the department's training coordinator maintains a database that includes records on driver training attendees, the responsibility for ensuring that employees attend a driver training course rests with managerial/supervisory personnel. As shown by the results of our tests, these employees are not consistently enforcing this requirement.

### **Recommendations**

3. Implement policies and procedures that ensure the completion and annual update of a STD 261 certification form by employees who use their own vehicle to conduct State business. This process should include an annual notification to supervisors of their responsibility for ensuring the completion and updating of the form.

**DEPARTMENT OF REHABILITATION**  
**Findings and Recommendations, Cont'd**

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4. Periodically reemphasize to operating unit managers and supervisors their responsibility for ensuring that employees who frequently drive on State business attend an approved defensive driver training course at least once every four years.

**CONTROL OF DGS CHARGE CARDS**

The DOR has not established policies and procedures which ensure that accurate records are maintained on the assignment of DGS charge cards. Specifically, at the time of our audit testing, a charge card process had not been established that ensured the maintenance of a complete and accurate central charge card control log and the performance of annual inventory and reconciliation procedures for the approximately 500 cards used by the DOR. Our sample tests of the charge card records maintained by Accounting Services disclosed that they contained numerous inaccuracies when compared to the actual cards used by various operating units.

To assist in ensuring accountability for DGS charge cards, systems of internal control must be in-place that ensure the maintenance of accurate records of the cards. SAM Section 4108.1 requires State agencies to execute proper management and oversight of the charge cards. Further, the State Fleet Handbook provides various internal procedures that must be in place to assist in ensuring accountability for the cards. These procedures include requirements for the maintenance of a central charge card control log, periodic performance of annual inventory and reconciliation activities and immediate cancellation of surplus cards.

The DGS charge card is a payment mechanism used while in the conduct of official State business for the following:

- Leasing vehicles and purchasing fuel at DGS Office of Fleet and Asset Management (OFAM) garages.
- Preventive maintenance service at OFAM garages.
- Taxi service in Sacramento.

**Recommendation**

5. Implement policies and procedures which ensure that accountability is maintained for DGS charge cards. The process should provide for the maintenance of a central control log that contains accurate information on all charge cards issued to the DOR. Further, operating procedures should contain provisions that ensure compliance with State Fleet Handbook provisions including those governing the conduct of annual inventory and reconciliation procedures.

**CONCLUSION**

Our findings and recommendations are presented to aid the DOR in administering its business management functions and services. The DOR should address the reported issues to assist in ensuring compliance with applicable State laws, policies and procedures.





DEPARTMENT OF  
REHABILITATION

*Employment, Independence & Equality*

*Arnold Schwarzenegger, Governor*



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Rick Gillam, CPA, CIA  
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Department of General Services

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May 13, 2010

Dear Mr. Gillam:

The Department of Rehabilitation (DOR) has carefully reviewed the draft report "Audit of the Department of Rehabilitation for Compliance with State Business Management Policies Report No. 8122" dated February 2009. Thank you for the opportunity to respond to the findings identified in this audit report.

The DOR acknowledges the audit findings, and responses to the individual findings are provided in the attached. The DOR Management is working to address the issues to ensure compliance with policies set forth in the State Administrative Manual, and the terms and conditions of any specific delegations of authority or exemptions from approval granted by the Department of General Services.

If you have any questions or concerns, please contact Kathi Mowers Moore, Operations and Accountability Officer, at (916) 558-5797 or [kmowers@dor.ca.gov](mailto:kmowers@dor.ca.gov).

Sincerely,

ANTHONY "TONY" P. SAUER, EMMDS  
Director  
California Department of Rehabilitation

Attachment



## California Department of Rehabilitation

### Response to the Draft Report:

Audit of the Department of Rehabilitation (DOR) for Compliance with State  
Business Management Policies Report No. 8122

Issued by the Department of General Services, Office of Audit Services  
February 2009

### **Finding 1: CONTRACTS – TIMELY APPROVAL**

Recommendation: Implement policies and procedures that ensure the DGS' approval of contracts prior to the commencement date shown on the contract. As part of this process, operating unit managers should be periodically reminded of the lead-time needed for the timely processing of contracts and their responsibility for ensuring that contract information is submitted to the Contracts Unit in a timely manner.

Department of Rehabilitation's Response: The DOR is currently implementing the following enhancements to contracting processes to mitigate identified findings:

- For contracts at risk of being late agreements, the DOR will utilize DGS model STD. 215 language regarding effective dates of contracts based upon notification of approval, as appropriate. This will ensure that commencement dates for all contracts will occur after notification of approval.
- The DOR will identify, develop and disseminate informational materials to DOR staff and contracting partners for alternative contract approval processes of DOR contracts by (DOR) program type (i.e. grant, subvention, service).
- The DOR will consider, implement and evaluate the effectiveness of alternative approval process options for DOR contracts by program type.

### **Finding 2: DELEGATED PURCHASING PROGRAM**

Recommendation: Implement additional quality assurance policies and procedures to assist in ensuring full compliance with the requirements of the delegated purchasing program. This process should address:

- Procurement files that did not always include documentation that competition was achieved through the obtaining of two responsible bids.
- Procurement files that often lacked the business certification for the losing business when the DOR was using the Small Business/Disabled Veteran Business Enterprises Option to acquire IT goods. Losing businesses' certification should be printed from a DGS website and maintained in the procurement file to fully document the transaction.
- Purchasing Authority Purchase Orders, STD. 65s, that did not accurately reference applicable terms and conditions and the procurement method used to award the purchase order.

Department of Rehabilitation's Response: The DOR has implemented the following actions to mitigate identified findings:

- In March, 2009, DOR staff responsible for processing purchase documents received clarification of responsibility to obtain comparable bids and retain them in the procurement files.
- Specific to service contracts, DOR contract section analysts now include a printout of the losing bidder's Small Business certification in the procurement audit file.
- The DOR contract section has updated STD. 213 templates to reflect the current General Terms and Conditions.
- The DOR contract section will update STD 213 templates as instructed by DGS Legal as they as updates occur. Contract Section staff have been instructed to correctly document, on STD 65s, the procurement method used to award the purchase order.
- The DOR contract section will be enhancing its desk process and schedule to assess compliance with documentation standards.

### **Finding 3: DRIVER SAFETY AND INSURANCE PROGRAM *Vehicle Authorizations***

Recommendation: Implement policies and procedures that ensure the completion and annual update of a STD 261 certification form by employees who use their own vehicle to conduct State business. This process should include an annual notification to supervisors of their responsibility for ensuring the completion and updating of the form.

Department of Rehabilitation's Response: The DOR has existing policy to ensure appropriate certifications by employees who use their own vehicle to conduct state business.

- The Rehabilitation Administrative Manual (RAM) sets forth official administrative rules, policies, and procedures in accordance with laws, rules, and regulations governing the operations of California State Government. RAM Chapter 3 (Travel) which currently addresses this requirement is in the process of being revised with an expected completion date of December 2010.

The DOR is updating its procedures to improved operational practices to mitigate identified findings.

- DOR Personnel Services Section will develop and disseminate a Department wide communication informing staff of their responsibility and requirement for submitting yearly certification updates for vehicle usage through the STD 261 form.
- A yearly reminder regarding STD 261 responsibilities will be sent to all supervisors and managers at the beginning of each fiscal year.

#### **Finding 4: DRIVER SAFETY AND INSURANCE PROGRAM *Defensive Driver Training***

Recommendation: Periodically reemphasize to operating unit managers and supervisors their responsibility for ensuring that employees who frequently drive on State business attend an approved defensive driver training course at least once every four years.

Department of Rehabilitation's Response: The DOR is currently implementing the following operational actions to mitigate identified findings:

- By June 30, 2010, the DOR Staff Development Section and Personnel Services Section will develop and disseminate a Memorandum (memo) for DOR managers and supervisors reminding them that DOR staff who drive must take Defensive Drivers training once every four years.
- DOR will disseminate an annual memo (beginning 1/1/11) reminding DOR managers and supervisors that any DOR staff who drive on State business must take DGS approved Defensive Drivers training every four years.

DOR Staff Development Section (SDS) maintains the departmental training attendance database, has updated it to include current defensive driver training for all employees identified by DGS records, and will keep copies of valid defensive driver training certifications submitted by employees. SDS will develop guidelines and monitoring policy to ensure Rehabilitation Administrative Manual Chapter 22 on Staff Training and Development incorporates information, guidelines, and procedures that are in compliance with SAM Section 0751. SDS will inform all DOR staff of the changes to RAM 22 and guidelines on SAM section 0751.

#### **Finding 5: CONTROL OF DGS CHARGE CARDS**

Recommendation: Implement policies and procedures which ensure that accountability is maintained for DGS charge cards. The process should provide for the maintenance of a central control log that contains accurate information on all charge cards issued to the DOR. Further, operating procedures should contain provisions that ensure compliance with State Fleet Handbook provisions including those governing the conduct of annual inventory and reconciliation procedures.

Department of Rehabilitation's Response: The DOR is implementing the following actions to mitigate identified findings consistent with existing policy:

- DOR Accounting will recall and cancel all DGS Blue Cards not currently in use.

Additionally, the DOR will review and revise current policies and procedures to ensure accountability and control of the DGS Blue Cards

- The DOR Accounting Services Section will update the DOR central control log to meet SAM requirements;
- The DOR Accounting Services Section will revise RAM Chapter 4, Section 4132, General Services Charge Card policy and procedures to conform to State Fleet Handbook provisions.

**DEPARTMENT OF REHABILITATION  
COMPLIANCE AUDIT**

**EVALUATION OF DOR'S RESPONSE**

We have reviewed the response by the Department of Rehabilitation (DOR) to our draft report. The response to the recommendations is satisfactory. We appreciate the efforts taken or being taken by DOR to improve its business management functions and services.